

**HABITAT FOR HUMANITY RIVERSIDE, INC.**

**AUDIT REPORT**

**JUNE 30, 2018**

**HABITAT FOR HUMANITY RIVERSIDE, INC.**

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Habitat for Humanity Riverside, Inc.  
Riverside, CA

We have audited the accompanying financial statements of Habitat for Humanity Riverside, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity Riverside, Inc. as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Bowen, McBeth Inc.*

Bowen, McBeth, Inc.

December 26, 2018

**HABITAT FOR HUMANITY RIVERSIDE, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2018**

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 321,987
Impound trust account	31,809
Inventory-Restore	164,000
Accounts receivable	425,995
Mortgage receivables, current portion	229,896
Construction in progress	1,181,890
<b>Total Current Assets</b>	<u>2,355,577</u>

**PROPERTY AND EQUIPMENT**

Equipment	78,545
Vehicles	58,276
Leasehold improvements	106,623
Accumulated depreciation	(219,285)
<b>Total Property and Equipment</b>	<u>24,159</u>

**OTHER ASSETS**

Mortgage receivables, net of current portion	6,320,800
Unamortized mortgage discount	(4,347,002)
<b>Total Other Assets</b>	<u>1,973,798</u>

**TOTAL ASSETS**

\$ 4,353,534

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Accounts payable	\$ 14,675
Accrued payroll	11,858
Accrued vacation	23,452
Homeowner escrow funds	36,100
Homeowner deposits	615
Current portion of long term debt	59,573
<b>Total Current Liabilities</b>	<u>146,273</u>

**LONG TERM DEBT**

Note payable, net of current portion	93,481
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**TOTAL LIABILITIES**

239,754

**NET ASSETS**

Unrestricted	3,852,511
Temporarily restricted	261,269
<b>Total Net Assets</b>	<u>4,113,780</u>

**TOTAL LIABILITIES AND NET ASSETS**

\$ 4,353,534

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS**

**HABITAT FOR HUMANITY RIVERSIDE, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
<b>SUPPORT AND REVENUES</b>			
Contributions	\$ 159,308	\$	\$ 159,308
Restore sales	1,012,631		1,012,631
Home sales	192,709		192,709
Mortgage discount amortization	187,088		187,088
Grants	296,248	253,515	549,763
Special events	52,325		52,325
Other income	4,279		4,279
Total support and revenues	<u>1,904,588</u>	<u>253,515</u>	<u>2,158,103</u>
<b>EXPENSES</b>			
Program services	1,941,328		1,941,328
Management and general	52,227		52,227
Fundraising	106,567		106,567
Total expenses	<u>2,100,122</u>	<u>-</u>	<u>2,100,122</u>
<b>CHANGE IN NET ASSETS</b>	(195,534)	253,515	57,981
<b>NET ASSETS-BEGINNING OF YEAR</b>	<u>4,048,045</u>	<u>7,754</u>	<u>4,055,799</u>
<b>NET ASSETS-END OF YEAR</b>	<u>\$ 3,852,511</u>	<u>\$ 261,269</u>	<u>\$ 4,113,780</u>

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS**

**HABITAT FOR HUMANITY RIVERSIDE, INC.  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2018**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$ 57,981
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation	10,662
Mortgage discount amortization	(187,088)
Mortgage discount expense	106,974
Mortgage debt forgiven	52,700
(Increase) decrease in operating assets:	
Impound trust account	6,970
Inventory	12,000
Accounts receivable	(399,971)
Construction in progress	(202,129)
Increase (decrease) in operating liabilities:	
Accounts payable	3,961
Accrued payroll	(2,927)
Accrued vacation	(1,443)
Homeowner escrow funds	(5,356)
Net cash provided (used) by operating activities	<u>(547,666)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Mortgages for home sales	(192,709)
Payments received on mortgages	234,041
Net cash provided by investing activities	<u>41,332</u>

**CASH FLOWS FROM FINANCING ACTIVITIES**

Payments on note payable	(57,182)
Net cash provided (used) by financing activities	<u>(57,182)</u>

**NET DECREASE IN CASH** (563,516)

**CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** 885,503

**CASH AND CASH EQUIVALENTS, END OF YEAR** \$ 321,987

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS**

**HABITAT FOR HUMANITY RIVERSIDE, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	<u>Program</u>	<u>Restore</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total Expenses</u>
Construction and related cost	\$ 60,054		\$ 60,054			\$ 60,054
Salaries and wages	419,983	285,316	705,299	45,599	41,992	792,890
Payroll taxes	34,127	27,419	61,546	4,149	3,458	69,153
Advertising		6,641	6,641			6,641
Auto	2,029	12,743	14,772	996	830	16,598
Bank charges	550	620	1,170			1,170
Dues	1,589	33,223	34,812			34,812
Equipment expense	97	26,248	26,345			26,345
Insurance	108,344	60,944	169,288			169,288
Office supplies	1,896	6,787	8,683	585	488	9,756
Outside services	2,131	37,176	39,307			39,307
Postage	1,463	1,661	3,124			3,124
Professional services	5,006	12,976	17,982			17,982
Repairs		14,018	14,018			14,018
Supplies	12,405	12,759	25,164			25,164
Telephone	948	12,373	13,321	898	748	14,967
Rent		250,188	250,188			250,188
Utilities		53,282	53,282			53,282
Tithes to Habitat International	3,072		3,072			3,072
Mortgage debt forgiven	52,700		52,700			52,700
Mortgage discount	106,974		106,974			106,974
Freight		14,788	14,788			14,788
Depreciation		10,662	10,662			10,662
Interest	7,170		7,170			7,170
Alarm service		756	756			756
Tax, License and permits	1,017	337	1,354			1,354
Helping hands cost	11,648		11,648			11,648
Americorps	21,067	3,600	24,667			24,667
Volunteer recognition	85		85			85
Training	5,676	30	5,706			5,706
Mobile home repairs	161,122		161,122			161,122
Special events			-		59,051	59,051
Inventory adjustment		12,000	12,000			12,000
Miscellaneous	22,491	1,137	23,628			23,628
<b>Total</b>	<u>\$ 1,043,644</u>	<u>\$ 897,684</u>	<u>\$ 1,941,328</u>	<u>\$ 52,227</u>	<u>\$ 106,567</u>	<u>\$ 2,100,122</u>

**THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS**



**HABITAT FOR HUMANITY RIVERSIDE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

General

Habitat for Humanity Riverside, Inc. (the Organization) is a not-for-profit Organization organized in California in 1988 and governed by a volunteer board of directors. Its purpose is to construct, with donated labor and materials, low-income housing for families who live in substandard dwellings and cannot afford to improve their living standards by conventional means.

Habitat provides interest-free financing. If the original family retains ownership of the home, Habitat will forgive a substantial portion of the mortgage principal in the final years of the loan. Habitat uses the proceeds from mortgage collections to finance the building of additional housing.

Habitat also operates a thrift store (Restore) as another means of raising funds for its building programs, which sells surplus donated building materials not used for its own housing projects. Sources of these donations included major home improvements chains, building contractors as well as the general public.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Income taxes

The Organization is exempt from income taxes under the Internal Revenue Code Section 501 (c) (3) and the California Revenue and Taxation Code Section 23701 (d). Habitat is not classified as a private foundation. Generally accepted accounting principles provides accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the organization in its federal and state tax returns are more likely than not to be sustained upon examination. The Organization's tax returns are subject to examination by federal taxing authorities for a period of three years from the date they are filed and for a period of four years for California taxing authorities.

Property and equipment

Property and equipment over \$500 are valued at cost if purchased or at fair market value at the date of receipt if donated. Depreciation has been computed on a straight-line basis over the useful lives of the assets, as follows:

Vehicles, furniture and equipment	5 to 7 years
Leasehold improvements	10 years

**HABITAT FOR HUMANITY RIVERSIDE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Restricted and unrestricted revenue

The Organization reports grants and donations as increases in unrestricted, temporarily, or permanently restricted, net assets, depending on the existence and/or nature of any donor restrictions. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Grants and donations with purpose restrictions that are accomplished during the same year they are received are reported as unrestricted net assets.

Donated services

Amounts are reported in the accompanying statements for voluntary donation of services when those services create or enhance non-financial assets or require specialized skills provided by individuals possessing those skills and which would be typically purchased if not provided by donation.

Donated material and supplies

Donated material and supplies are recorded as contributions at their estimated fair market value at the date of donation if a value can be reasonably determined. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose.

Inventory- Restore

Restore inventory consists of donated building materials available for sale to the general public. The recorded value is estimated based on total yearly sales to approximate the fair value.

Use of estimates

Accounting principles generally accepted in the United States of America require management to make assumptions in estimates that affect the amount reported in the financial statements for assets, liabilities, revenues, and expenses. In addition, assumptions and estimates are used to determine disclosure for contingencies, and other matters discussed in the notes to the financial statements. Actual results could differ from those estimates

Cash equivalents

For the purpose of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Advertising costs

Advertising costs are expensed as incurred.

Subsequent events

Habitat has evaluated subsequent events through December 26, 2018, which is the date the financial statements were issued.

**HABITAT FOR HUMANITY RIVERSIDE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 2-HABITAT FOR HUMANITY INTERNATIONAL**

The Organization annually remits a portion of its monetary contributions to Habitat for Humanity International. These contributions are used to construct homes in economically depressed areas around the world. During this reporting period, the Organization contributed \$3,072 to Habitat for Humanity International. This amount is included in program services in the statement of functional expenses.

**NOTE 3-CONSTRUCTION PROPERTY AND CONSTRUCTION IN PROGRESS**

Construction property consists of land acquired for the purpose of future building sites for suitable housing project and is reported at acquisition cost, or at fair market value if donated. Construction in progress consists of costs accumulated during the construction process.

**NOTE 4-PROPERTY AND EQUIPMENT**

Property and equipment were comprised of the following at June 30, 2018.

Fixed assets:

Leasehold improvements	\$ 106,623
Office equipment	78,545
Vehicles	<u>58,276</u>
Subtotal	243,444
Less accumulated depreciation	<u>(219,285)</u>
Total property and equipment	<u>\$ 24,159</u>

Depreciation expense for the year ended June 30, 2018 was \$10,662.

**NOTE 5-MORTGAGES RECEIVABLE AND DISCOUNT AMORTIZATION**

Mortgages receivable consists of several interest-free loans made to families who have become owners of Habitat homes. These homeowners pay between \$200 and \$800 monthly, not including insurance and property taxes, and the loans have varying terms 18.5 to 45 years. Habitat's policy is to forgive a portion of the original loan amount during the final 10 to 15 years of the loan amortization under the condition that the borrower retains ownership for the entire loan period per the mortgage contract.

Accounting principles generally accepted in the United States of America require that interest-free loans, which involve the purchase of real estate, be discounted to their present value using a fair market rate of interest. Accordingly, the carrying amounts of mortgages receivable have been reduced by the amount of these discounts, which will be amortized over the life of the loans.

**HABITAT FOR HUMANITY RIVERSIDE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 5-MORTGAGES RECEIVABLE (continued)**

Mortgages receivable present value at June 30, 2018

Mortgages receivable at face value	\$ 6,550,696
Less unamortized present value discount	<u>(4,347,002)</u>
<b>Total mortgages receivable</b>	<b><u>\$ 2,203,694</u></b>
Mortgage receivable-current portion	\$ 229,896
Mortgage receivable-long term	\$ 6,320,800

Amortization of the mortgage discount was \$ 187,088 for year ended June 30, 2018.

**NOTE 6-OPERATING LEASES**

On May 26, 2010 the Organization entered into a lease agreement and moved the business office and Restore to a new location in Riverside. In 2017 the lease agreement was extended to September 30, 2022. Lease expense for the year was \$ 250,188. Minimum lease payments for the new lease are as follows:

Three months ended September 30,	
2019	\$ 272,416
2020	280,589
2021	289,007
2022	297,677
2023	74,965

**NOTE 7-NOTE PAYABLE**

The Organization obtained a loan from Habitat for Humanity International using the Flexible Capital Access Program (FlexCap). The FlexCap program allows Habitat affiliates to pledge mortgages as collateral for a loan. The Organization borrowed \$393,900 with quarterly payments of \$16,088 including interest at 3.8% per annum. Maturity of the loan is December 2020.

Balance at June 30, 2018	\$ 153,054
Less current portion	<u>( 59,573)</u>
Note payable long term	<b><u>\$ 93,481</u></b>

Maturities of the note payable are as follows:

Year ending June 30,	
2019	\$ 59,573
2020	61,877
2021	<u>31,604</u>
	<b><u>\$153,054</u></b>

**HABITAT FOR HUMANITY RIVERSIDE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 8-FUNCTIONAL ALLOCATION OF EXPENSES**

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**NOTE 9-FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Organization's financial instruments are cash, accounts receivable, mortgage receivable and accounts payable. The recorded values of cash, accounts receivable and accounts payable approximate their fair values based on their short-term nature. The fair value of mortgage receivables has been discounted to present values as explained in note 5.

**NOTE 10-TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are restricted for the construction costs of homes. Upon the completion of the homes the temporarily restricted net assets will be released to unrestricted net assets.